

To: Governor McCallum's Health Care Cost Task Force

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HEALTH CARE ISSUES RELATED TO THE MENOMONIE AREA  
SCHOOL DISTRICT

09/24/02

About our school district:

The Menomonie Area School District is a K-12 district with an enrollment of roughly 3,400 students. We have 242 FTE (full time equivalent) teachers.

We have six elementary schools, one middle school, one high school and an alternative high school.

Our operating budget is about \$25 million dollars.

Our health care plan is self-insured through Humana.

A) HEALTH CARE COST PROBLEM AS IT RELATES TO THE MENOMONIE SCHOOL DISTRICT:

1) LOW TEACHER MORALE:

Many teachers in our district believe the Qualified Economic Offer (QEO) and health care costs have held them back financially. It causes a morale problem. They feel they are not valued. They are not able to do their best for our children when they feel unappreciated.

WEAC puts out information that misleads both their membership and the public concerning teacher compensation. Teachers then write letters to the editor that reinforce the misinformation. We currently have a threat of a statewide teacher's strike. Yet, board members are powerless to do anything. How do we tell the public that WEAC is being deceitful without bringing the integrity of our teachers into question? It would create even further tension.

The documents marked 'Set A' contain information that illustrates that our teachers have not lost ground inflation, teachers nationwide, nor the private sector when total compensation is evaluated.

2) HIGH EARLY RETIREMENT COSTS:

Increases in health care costs not only increase the costs of current payrolls, but they also increase early retirement costs. Our early retirement costs have doubled during past five years- from \$340,622 in 1996-97 to \$682,080 in 2001-02. Early retirement agreements were entered into with the understanding that they could be funded through the cost savings. The difference between the salary of the teacher taking early retirement and the salary of the new teacher was expected to fund the cost of early retirement. However, that is no longer the case. Document B shows that in a best case scenario, our district loses about \$34,495 over a ten year period for each teacher who takes early retirement. However, many teachers who retire are not at the top of the salary schedule. Their replacements are often not at the bottom of the salary schedule. Most of the time we lose much more. This has added a tremendous financial burden to our district.

3) LOWER BOND RATINGS:

The new accounting requirements for state and local governments developed by Governmental Accounting Standard Board (GASB) require that health care liabilities for retirees be factored into the balance sheet. As our health care liabilities for early retirement plans increase, we risk losing our bond rating. This would increase interest expenses.

4) PART TIME EMPLOYEES UNABLE TO AFFORD THEIR SHARE OF EXPENSIVE PLANS:

Many part time employees are not able to afford their share of the health care. Document C shows why part time secretaries in our school district are becoming less able to afford their contribution to the plan. Secretaries pay 10% of the premium. However, if they are part time, as most are (school is not in session the full year), their benefits are prorated. A 77% time secretary pays 100% of 23% of the full premium ( $100\% - 77\% = 23\%$ ) plus 10% of the remaining 77%. By 2010-11, my projections are that base wages will be \$8,680 and the employee contribution \$8,946. The secretaries will not earn enough in wages to pay their share of the health care premiums. I have already heard of a case in which one of our part time support staff received a check for only \$.83 after payroll deductions and the health care deduction.

#### 5) INABILITY TO BARGAIN HEALTH CARE COST CONTROLS FOR HIGHER SALARIES:

A recent survey indicated that most of our employees are unwilling to either increase deductibles nor to pay more for brand name drugs in exchange for higher salaries.

I do believe many of our younger teachers would rather have more in salaries and less in health care benefits. However, most of the teachers on our bargaining team are close to retirement. Younger teachers are too busy with young families to have time to serve on committees. Those who do have the time generally are close to retirement. They would rather not give up benefits in exchange for higher salaries.

Our teachers also appear to be placed under a great deal of pressure by WEAC to refuse to bargain health care cost controls. They are hesitant to agree to anything that is not condoned by WEAC. I am not clear as to the reason for this. I believe there is a sense that they must all stick together and support all of the goals of WEAC or they will lose bargaining power. This makes bargaining higher salaries in exchange for cost controls on health care benefits almost impossible. The teachers in our school district have voluntarily have given up more than \$3,400 per teacher since 1997-98 in exchange for increases in district paid health care benefits.

#### 6) INTERNAL COMPENSATION INEQUITIES:

There is a financial incentive for those with family health care plans to take more in district paid health care benefits rather than salaries. Document D details the impact on increasing health care benefits depending on whether you have family insurance, single insurance or no insurance. You will note that those with family insurance plans are benefiting greatly at the expense of those with single or no insurance plans. (Some do not take insurance because they are covered under their spouses plans.) You will note that those with family plans gain \$701 by increasing insurance premiums 25% while those with single plans lose \$854 and those with no insurance lose \$1,699. If we were to give all white males a \$701 bonus that we financed by cutting salaries of all women by \$854 and all blacks by \$1,699, there would be a public outrage. Yet, those with family plans have about 2/3 of the votes. There is no incentive for the 2/3 majority to hold back health care costs.

#### 7) LIMITED ABILITY TO OFFER COMPETITIVE SALARIES:

The inability of our school board to bargain increases in salaries in exchange for cost controls on benefits will soon make it difficult to offer wages that are competitive with the private sector. A projection by WASB suggests that by 2013-14 beginning teachers will be earning an average of \$42,829 in family health care benefits and \$42,411 in salaries. We cannot be competitive with the private sector if we are forced to pay more in health care than in salaries.

#### 8) NO INCENTIVE FOR TEACHERS TO LIMIT THEIR HEALTH CARE USAGE:

Health care usage in our district has been increasing. This is driving up our costs even further. In our district, teachers have a \$50 deductible per family member (up to \$150). The \$50 deductible is generally met with one office visit. After one visit, there is no financial incentive to question whether you really need to go to the doctor again. Also, our co-payments for a three month supply of drugs is set at \$4.00 for generic / \$8.00 brand. There is very little incentive to use generic drugs even when they are just as effective.

B) EXAMPLES OF HOW HEALTH INSURANCE COSTS MAY HAVE KEPT YOUR ORGANIZATION FROM BUDGETING ESSENTIAL ITEMS:

1) GENERAL DISCUSSION:

Health care costs are only a part of a total school district budget. Most of the cost gets offset through lower salary increases. The more health care costs go up, the less there is to go into salaries. The exception is health care costs for those taking early retirement and our AFSCME support staff.

The cost of early retirement doubled between 1996-97 and 2001-02, from \$340,622 to \$682,080. I do not know exactly how much our health care costs for support staff have increased. However, at our May 2002 board meeting, our business manager told us that our 20001-02 health care costs for our AFSCME support staff are expected to be \$19,835 more than negotiated and our 2002-03 health care costs will be \$75,900 more than we negotiated. This is because we negotiated expecting a 15% increase in health care. The actual increase was closer to 23%. The district will need to absorb this cost increase.

2) CURRENT ACTIONS:

The following actions were taken in May 2002 to address our unexpected health care cost increases and the uncertainty of our current state budget:

1) STAFF TRAVEL:

Travel unless absolutely necessary has been cancelled.

2) LEAVING POSITIONS UNFILLED:

We are not filling the following vacant positions pending outcome of our current budget crisis and uncertain state budget:

- Director of Human Resources
- District Technology Program Director
- High School Guidance Counselor
- High School English Teacher
- Special Education Program Support Teacher

3) PREVIOUS ACTIONS:

1) FROZEN SITE BUDGETS:

Budgets for our individual school sites have been frozen for several years. Parent groups have been increasing their fund raising activities to pay for things such as playground equipment. Parents have expressed concerns about the amount of fundraising that is needed. There are discussions concerning cancelling class trips.

2) MAJOR MAINTENANCE PROJECTS POSTPONED:

There is also a major maintenance concern. Several of our elementary schools are in need of new roofs and asbestos abatement. The air quality is poor in some classrooms. Needed roof and boiler replacements have been postponed. Soon we will not be able to put things off without putting the health of our students at risk. I do

not know where we will find the dollars for these projects. A referendum is not feasible. Many in our community, particularly seniors on fixed incomes, are being taxed out of their homes. Increasing the assessment on a senior citizens home does not increase their ability to pay property taxes. The high costs of health care that impact schools also places a financial burden on those in the private sector. Asking the public to absorb their own health care increases AND the health care costs of public employees would not be fair.

### 3) YEAR BY YEAR REVIEW OF BUDGET CUTS AND FEE INCREASES:

Following are some specific examples of budget cuts and fee increases that we have had to implement during the past few years:

#### 1999-00:

- Eliminated 8th Grade Traveling Basketball
- Increased Towel Fees \$5 (charged for each phy ed class)
- Added Summer School Registration Fee \$5
- Teaching Staff Reductions: 4.04 FTE  
(FTE = Full Time Equivalents)

#### 2000-01:

- Increased Drivers Education Fees to \$250 Regular School Year and \$225 Summer School (I believe this was a \$50 increase)
- Increased Activity Fees to \$25 per activity Middle School and \$30 per activity High School (\$5 increase)
- Reduced High School Contingency Fund \$20,000
- Teaching Staff Reductions: 4.08 FTE

#### 2001-02:

- Major Maintenance Budget Reduction \$90,000
- Equipment Purchase Budget Reduction \$50,000
- Technology Budget Reduction \$18,000
- Teaching Staff Reductions: 0.7 FTE

#### 2002-03:

- Reduced Staff Travel \$25,000
- \* Eliminated Half Time Diversity Coordinator \$31,420
- \*\* Eliminated Child Care Services \$38,600
- Reduced Student Travel \$5,000

\* Note: This was a very difficult reduction. 10% of our students are Hmong. One of the duties of the diversity coordinator is to work with Hmong parents. Many do not speak English. The diversity coordinator helps these parents understand what they can do to help their children be successful. She also advises the school district as to what we can do to better serve the needs of our Hmong children.

\*\* The next page contains a copy of a letter I received last month from a former student who needed this service while she attended our high school. She talks about how detrimental this cut will be to young women who become parents while in high school. We have yet to find the dollars to reinstate the service.

Dear School Board,

I have recently heard about cutting the Menomonie High School day care, due to the budget cut. This cut will be very detrimental for the young parents with children that attend the high school. They would be forced to try to find another source of day care, which is very expensive for a high school parent who has only a part-time job and could possibly already be paying for day care while they work. Most parents that have full time jobs can hardly pay for day care. Cutting the day care could also force students to quit school, for the reason addressed above, resulting in denying them the right to go to school and reaching their goals to receive a high school diploma. The day care lets the parents interact with their children throughout the day. You are also taking away very great and important people's jobs and lively hoods. I am not talking from hearsay; I am talking from personal experience. Tracy and Pat have watched my child when I went to high school they were very caring and took the extra time to teach him many things. I am a single mom who is still grateful for the Menomonie high school day care and also for Tracey and Pat for being there for my son so I could attend high and get my high school diploma. I have successfully received my high school diploma in the year 2000 and have graduated Chippewa Valley Technical College in the year 2002. I feel if it wasn't for the services that the high school provided I would not be where I am today. I hope that you take into consideration all the things that are affected with this cut. Please try to think of

all the other alternatives you can choose to help these young parents reach their dreams instead of taking them away from them. Thank-you for your time.

### C) SUGGESTIONS ON HOW TO RESOLVE THE ISSUE:

#### 1) MORE MONEY IS NOT THE SOLUTION:

Statewide, our spending has been increasing faster relative to inflation since the implementation of revenue limits than prior to the implementation of revenue limits. The source of this information is the Wisconsin Taxpayers Alliance. However, I am not sure of the date of the publication. I believe it was Oct or Nov 2001.

Our spending on teacher salaries and benefits also look very good when compared to both our private sector and teachers nationwide.

#### 2) MODIFY QEO CALCULATION:

Set QEO at 1.3% plus the rate of inflation. Fairness would suggest that increases should be higher during periods of high inflation and lower during periods of low inflation.

I believe teachers may be more willing to bargain higher salaries in exchange for cost controls on benefits if there were ~~ASSURANCES~~ that they would be protected in the event inflation ~~STARTS GOING UP~~.

Teachers have done well under the QEO because inflation has averaged only 2.6% since the start of QEO. It has never gone above 3.4%. However, teachers have the right to be concerned about their bargaining power in the event that inflation starts going up again. Redefining a QEO offer in terms of inflation would reduce this fear.

Rationale for 1.5% plus inflation: Average package increases since the start of QEO have been about 3.9% and average inflation 2.6%.  $(3.9\% - 2.6\%) = 1.3\%$  That is, 1.3% plus inflation would ensure total package compensation increases similar to current levels.

#### 3) MERIT PAY:

Increases for lane changes should be replaced with increases for merit or higher levels of responsibility. Teachers would gain more control of their wages. The best would be able to increase their salaries even if the salary schedule is held back due to increases in health care benefits.

We should look for compensation models that can tie into the new teacher licensure laws set to take effect June 30, 2004. Under the current structure, those at the top of the scale are not required to do anything more than those at the bottom of the scale. New teachers need more prep time than experienced teachers. Yet, experienced teachers at the top get just a much prep time as those at the bottom of the scale. Asking those who are being paid a great deal extra for their experience to mentor new teachers should not be unreasonable.

#### 4) MODIFY INTEREST ARBITRATION REGULATIONS:

Employer paid health care premiums are not included in the Consumer Price Index because they are considered part of an employee's income. The Bureau of Labor Statistics also has determined that employer paid health care is part of an employee's income.

Yet, some arbitrators only look at wages rather than the total compensation package. Evaluating total package increases rather than wages and benefits separately would help employees understand that there is a relationship between what can be offered in salaries and what they request in benefits.

I would also help if arbitrators were permitted to accept some part of each proposal rather than being forced to select one in its entirety. The primary objective should be fairness.

As it is now, we are forced to offer more than we really can afford because we risk losing too much if our proposal is not chosen by the arbitrator.

It would also help if bargaining units were required to offer a rationale for their requests. It is not fair to ask board members to do the research to determine if the requests can be justified to the public. If teachers want something, they should at least be willing to take the time to come up with a rationale that makes sense to the public.

#### 5) ESTABLISH STATE STANDARDS FOR PUBLIC EMPLOYEE HEALTH CARE PLANS:

The State Standard Plan II plan changes for 2002 included:

- \* Increased annual deductible to \$500 per person; maximum of two per family
- \* Increased out of pocket expenses from \$1,000 per person/\$2,000 per family to \$2,000 per person/\$4,000 per family
- \* Increased co-payments for brand name drugs from \$14 to \$21; co-pay for generic drugs remained at \$7.00

Document E shows savings estimates we could have realized if employees would have been willing to increase deductibles to \$100 and adopt a drug card that charges \$8.00 for generic and \$15.00 for brand drugs. All cost savings were earmarked for salary increases.

The staff rejected these, and many other suggestions for controlling health care costs.

School districts need the ability to offer health care plans that encourage responsible usage.



Since school districts have not been able to bargain cost controls for higher salaries, we need to see some action on the part of the state to define standards for a basic plan.

If we could increase our deductibles to \$500 and increase co-payments as was done with the State Standard Plan II, our costs would go down more than \$1,000 per employee. The savings would be available for salaries. Also, usage would most likely go down. The cost savings would probably be more much more.

Document F is an article that appeared in the May 27 Eau Claire Leader Telegram. WEA disputes the savings WASB claims that school district's would save under that state plan. The fact is, there would be no cost savings if school districts were required to pay premiums on the most expensive plans. However, we could save a great deal if we had the right to offer the least expensive plan while giving employees an opportunity to pay the difference for the more expensive plans.

A standard plan that includes deductibles and co-payments that more closely mirror that in the private sector would allow school districts to control health care costs and offer very competitive wages. I strongly believe that our district could have easily saved \$1,500 per employee this year if we had been able to implement the changes that the state put in place for their Standard Plan II.

6) FREEZE INCREASES IN DISTRICT PAID HEALTH CARE UNTIL THE RATIO OF BENEFITS TO SALARIES IS MORE CLOSELY ALIGNED WITH THE NATIONAL AVERAGE.

The national average for teacher benefits versus salaries is about 25%. The average for Wisconsin is about 35%

We can resolve the concern about salaries losing ground to the US Average by freezing increases (or limiting increases) in district paid health care, until our benefit liability is more in line with our competitors.

Teachers really are reluctant to bargain cost controls. They are hesitant to do anything WEAC does not condone. This would give the teachers freedom to bargain health care controls without a sense that they are betraying WEAC. This would encourage employees to bargain in good faith concerning their health care benefits.

7) GRANT SCHOOL DISTRICTS THE RIGHT TO IMPOSE CONTROLS ON DISTRICT PAID HEALTH CARE IN THE EVENT THE RATIO OF HEALTH CARE BENEFITS TO TOTAL COMPENSATION GOES BEYOND 7%.

This suggestion is similar to number 6. It differs in that it would not mandate a freeze (or limited increase) but rather give school districts the discretion to impose cost controls. I suggested a 7% figure simply because I believe the national average is somewhere between 6% and 7%. Some other figure could be used and actually adjusted in the event the national averages changes significantly.

#### 8) ESTABLISH FUNDS FOR DEFERRED BENEFITS:

One concern centers on the unfunded liability created by health care costs for early retirement. School districts could see a drop in their bond ratings.

Possibly the issue could be resolved if regular contributions to a fund could be made on behalf of employees to ensure the dollars are there when needed.

These deferred benefits should also be recognized as income to the employees. Increases should be considered increases in total compensation and fall within the QEO.

These suggestions really should be reviewed by a school district business manager. I have presented a concept, but do not know if what I have said is consistent with fund accounting.

#### 9) TAX EMPLOYER PAID HEALTH CARE BENEFITS:

If public employees continue to receive more and more of their income in the form of health care rather than taxable income, the state faces large losses of revenue. The lost revenue would need to be made up in some manner.

Fairness suggests that either all citizens should be able to deduct the full amount of their medical expenses, or an income tax applied to employer paid health care benefits.

#### 10) STATE TAKE OVER COST OF HEALTH CARE PLANS:

School district staff could be offered several state plans. The least expensive could be at no cost to the employee. Employees desiring more extensive plans could pay the difference.

This could be funded by including the costs of the health care plans under the 2/3 state funding. That is, deduct the total costs from the state obligation prior to distributing the state aid.

This would probably require a one time adjustment in revenue limits. That is, if the school districts do not need the dollars to pay for the health care, they would not need to raise the revenue to cover the costs.